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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 30, 2000

APPLICATION OF

VIRGINIA-AMERICAN WATER COMPANY

CASE NO. PUE990677

For a general rate increase

FINAL ORDER

On December 23, 1999, Virginia-American Water Company ("Virginia-American" or "Company") completed an application for a general increase in rates. The Report of Alexander F. Skirpan, Jr., Hearing Examiner of October 19, 2000 ("Report") and the record have been filed. Examiner Skirpan recommended that the Commission accept a proposed settlement that, among other things, produces a total annual increase in revenues of \$857,832. The Company filed the only comment, and it urged adoption of the Report. The Commission will adopt the Report's findings and recommendations.

The Company requested an increase in rates, effective March 6, 2000, designed to increase annual operating revenues by \$1,441,570. In addition, Virginia-American proposed a second increase of \$341,891 for the Hopewell District scheduled to take effect on March 6, 2001. On February 3, 2000, the Commission issued its Order for Notice and Hearing in which it permitted the proposed rates to become effective March 6, 2000, subject to

refund. The City of Hopewell and the Hopewell Committee for Fair Water Rates ("Committee") protested the application.¹ On July 31, 2000, Virginia-American withdrew its requested 2001 increase for the Hopewell District.

During the evidentiary hearing held on September 18, 2000, Virginia-American, the Commission Staff, and the Committee offered a stipulation settling all of the issues of this case. The City of Hopewell did not object to the stipulation. Subject to agreed modifications, Virginia-American adopted Staff's adjustments and agreed to the following revenue changes:

Alexandria -- annual increase of \$383,660
Hopewell -- annual increase of \$549,359
Prince William - annual decrease of \$75,187.

These revenue changes are based on the midpoint of a cost of equity range of 10.25% to 11.25%, or an overall cost of capital of 9.014%.

The participants in the stipulation agreed to the Staff's earnings test results, regulatory asset write-off, and the use of such tests for Annual Informational Filings ("AIFs"). The participants also agreed that the earnings test should have no precedential effect in future rate cases or subsequent AIFs. The stipulation provided for tank painting reserve accruals of

¹ The members of the Hopewell Committee for Fair Water Rates are as follows: Cogentrix, Goldschmidt Chemical Company, Hercules Incorporated, Honeywell, Hopewell Cogeneration Facility, James River Cogeneration, PraxAir, Inc., and Smurfit-Stone Container.

\$6,000 per month for November 3, 1997, through December 31, 1999. Beginning January 1, 2000, the annual reserve accrual should equal the average actual tank painting costs for the preceding five calendar years.

The stipulation provided for the Staff's modification of Virginia-American's rate design for the Hopewell District Schedule 2 (non-potable service) for this case only. Agreement on rate design was with the understanding that such rates will have limited duration, and that rate design issues will be further addressed after this case.

Examiner Skirpan found that the settlement offered a reasonable resolution of the issues, and he recommended its adoption. After considering the record, the Commission adopts Examiner Skirpan's recommendation and accepts the settlement. As discussed in the Report, recovery of the cost of the non-potable system improvements in the Hopewell District through an appropriate rate design remains an issue. The Commission urges the Company, the City of Hopewell, and the Committee to continue discussions to develop a rate design that balances the interests of the Company, customers, and the City of Hopewell. The Staff will be available to provide any assistance it can.

Based on the record and the stipulation filed in this proceeding, the Commission finds as follows:

(1) The use of a test year ending March 31, 1999, is proper in this proceeding;

(2) Virginia-American's test year operating revenues, after all adjustments, were \$27,407,573;

(3) Virginia-American's test year operating revenue deductions, after all adjustments, were \$22,367,261;

(4) Virginia-American's test year net operating income and adjusted net operating income, after all adjustments were \$5,040,312 and \$5,032,771, respectively;

(5) Virginia-American's adjusted test year rate base is \$63,419,417;

(6) Virginia-American's current rates produce a return on adjusted rate base of 7.936% and a return on equity of 8.133%;

(7) Virginia-American's current cost of equity is within a range of 10.25% - 11.25%, and Virginia-American's rates should be established based on the midpoint, 10.75%, of the equity range;

(8) Virginia-American's overall cost of capital, using the midpoint of the equity range and the capital structure as proposed by Staff and reflected in the stipulation, is 9.014%;

(9) Based on the stipulation, Virginia-American requires \$857,832 in additional gross annual revenues to earn a reasonable return on rate base;

(10) The \$857,832 in additional gross annual revenues is assigned to Virginia-American's divisions as follows:

Alexandria – an annual increase of \$383,660; Hopewell – an annual increase of \$549,359; and Prince William – an annual decrease of \$75,187;

(11) In accordance with the stipulation, Staff's earnings test results and corresponding Prince William District regulatory asset write-off shall be used for purposes of this case and all AIFs filed before the Company's next rate filing. Such treatment shall have no precedential effect in future cases;

(12) Tank painting reserve accruals for November 3, 1997, through December 31, 1999, should be \$6,000 per month. Beginning January 1, 2000, such accruals should be equal to the monthly average actual tank painting costs for the preceding five calendar years. The tank painting accrual reserve, net of tax, as of March 6, 2000, is \$135,639, and is assigned to Virginia-American's divisions as follows: Alexandria - \$46,361; Hopewell - \$49,137; and Prince William - \$40,141;

(13) Pursuant to the stipulation, the Staff's rate design is adopted for this case.

Accordingly, IT IS ORDERED THAT:

(1) Virginia-American's application for a general increase in rates is granted to the extent discussed above and is otherwise denied.

(2) On or before December 20, 2000, Virginia-American shall file with the Commission's Division of Energy Regulation schedules of rates, charges, rules and regulations designed to produce \$857,832 in additional gross annual revenues and bearing an effective date of January 1, 2001. The additional revenues shall be apportioned using the methodology approved herein.

(3) On or before June 20, 2001, Virginia-American shall recalculate, using the rates and charges prescribed by ordering paragraph (2) of this Final Order, each bill it rendered that used, in whole or in part, the rates and charges that took effect under bond and subject to refund on March 6, 2000. Where application of the rates prescribed by this Final Order results in a reduced bill, Virginia-American shall refund with interest the difference.

(4) Interest upon the ordered refunds shall be computed from the date payments of monthly bills were due to the date refunds are made, at the average prime rate for each calendar quarter, compounded quarterly. The average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published

in the Federal Reserve Bulletin or in the Federal Reserve's Selected Interest Rates (Statistical Release G.13) for the three months of the preceding calendar quarter.

(5) The refunds ordered in (4) above may be credited to current customers' accounts (each refund category shall be shown separately on each customer's bill). Refunds to former customers shall be made by check mailed to the last known address of such customers when the refund amount is \$1 or more. Virginia-American may offset the credit or refund to the extent no dispute exists regarding the outstanding balance of a current or former customer. No offset shall be permitted for the disputed portion of an outstanding balance. Virginia-American may retain refunds owed to former customers when such refund amount is less than \$1. Virginia-American shall maintain a record of former customers for which the refund is less than \$1, and such refunds shall be made promptly upon request. All unclaimed refunds shall be subject to § 55-210.6:2 of the Code of Virginia.

(6) On or before July 20, 2001, Virginia-American shall file with the Divisions of Public Utility Accounting and Energy Regulation a report showing refunds made pursuant to this Final Order and detailing the costs of the refund and accounts charged. Costs shall include, inter alia, computer costs, and the personnel hours, associated salaries, and costs for

verifying and correcting the refunds directed in this Final Order.

(7) This case is dismissed from the Commission's docket.